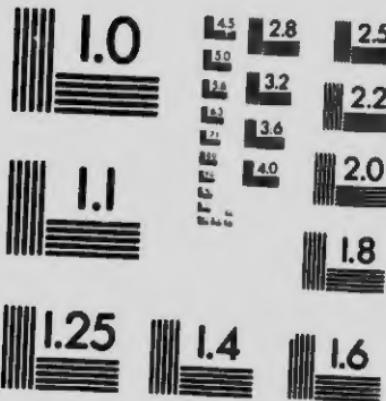


MICROCOPY RESOLUTION TEST CHART
(ANSI and ISO TEST CHART No. 2)



APPLIED IMAGE Inc.
1653 East Main Street
Rochester, New York 14609 USA
(716) 482-0300 - Phone
(716) 288-5989 - Fax

John B. Foster

246573

PREFERENTIAL TARIFFS AND RECIPROCITY

BY

G. E. FOSTER

REPRINTED FROM

PAPERS AND PROCEEDINGS OF THE SEVENTEENTH ANNUAL MEETING
AMERICAN ECONOMIC ASSOCIATION
DECEMBER, 1904

PREFERENTIAL TARIFFS AND RECIPROCITY

I. PREFERENTIAL TARIFFS

Since 1879 Canada has enacted tariffs based upon the principle of protection. These tariffs have varied from time to time, both as to the range of dutiable articles and the rate of duty imposed, and have all included a varied and generous free list made up principally of raw or of partly manufactured materials for use in the production of finished goods.

The average rate upon dutiable imports has not been excessive. In 1879 it was $23\frac{1}{3}\%$; in 1887 $28\frac{3}{4}\%$; it reached its highest, $31\frac{3}{4}\%$, in 1889; in 1896 it had declined to 30%, and in 1903 stood at 27.15%. The free list has always been large, running from 70% of the total imports in 1879, to 61% in 1896, and 60% in 1903.

In 1897 the following clause was enacted as section 17 of the tariff act of that year: "That when the customs tariff of any country admits the products of Canada on terms which, on the whole, are as favourable to Canada as the terms of the reciprocal tariff herein referred to are to the countries to which they apply, articles, whether the growth, produce or manufacture of said countries, when imported direct therefrom, may then be imported direct into Canada or taken out of warehouse, for consumption at the reduced rates of duty provided in the reciprocal tariff set forth in schedule D."

This was in effect a general reciprocity clause under which imports from free trade and low tariff countries came into the Canadian market at the reduced rates with-

out any return advantages to Canadian exports in their markets. In addition thereto, owing to the existence of the Belgian and German treaties with Great Britain, imports from these countries received the benefits of the Canadian reduction without giving any return advantages to Canadian exports. And, still further, any countries having most favoured nation clause treaties with Great Britain could claim the like favoured entrance for their exports to Canada.

This situation was relieved by the denunciation on the part of Great Britain of the Belgian and German treaties, and, on the part of Canada, by the repeal of section 17 above referred to, and the substitution therefor of a special preferential clause applicable to the British Empire alone. This was done in 1898 and the preference was fixed at a reduction of 25% of the general duty. In 1900 the reduction was increased to 33½% at which it still remains. This preference does not apply and is not meant to apply to any but British countries. It is now operative in respect to the United Kingdom, Bermuda, British Guiana, the British West Indies, British India, Ceylon, the Straits Settlement, New Zealand, the Cape of Good Hope, Natal, the Orange River, the Transvaal and the British territory of South Rhodesia. The above legislation was the result of a somewhat prolonged discussion and of resolutions of intercolonial conferences held in Canada and London looking to the betterment of trade relations between the various members of the Empire. The idea met with a ready and hearty response in the Colonies but was less generally approved in the United Kingdom, owing first to the existence of certain favoured nation clause-treaties between it and other European countries and, secondly, to the fact that its

full practical operation required a modification of the accepted practice of free trade. The action of Canada in 1898 in granting a preferential treatment to the products of Great Britain, without supulating for any return, encouraged and stimulated the friends of the movement everywhere. The result has been the adoption of the principle by most of the colonies and the formation of a very large and influential body of sentiment in its favour in the mother country, and the establishment of an active propaganda for its adoption there under the leadership of the Right Hon. Joseph Chamberlain.

Imperial preference contemplates an arrangement by which each British country grants a preference to the products of every other in its markets to such degree and on such articles as it may deem best, and, by thus giving an advantage to the British exporter over the foreign exporter, emphasizes the family relationship and stimulates production and trade within and throughout the Empire. Each keeps its own absolute and separate powers of fiscal legislation unhampered by treaties and without interference by any others. The scale of duties that for revenue and protective purposes each deems it wise to enact, is entirely within its rights as to amount, items and changes to suit altered conditions; only, whatever these may be and however they may be changed, a member of the family, by having a preference, is secured a more favorable position than the foreigner. This does not preclude and may invite conference between the several member as to the extent and degree of preference to be given and in order to ensure greater permanence and wider effect. Inasmuch as all parts of the Empire, except the United Kingdom, have general tariffs, the basis for preference exists on

their side and the preference itself is easily made mutual as between them.

The United Kingdom which has no general tariff must, in order that the idea of mutual preference may be completely realized, so far modify her present system as at least to place a small duty upon certain staple natural products such as the Colonies produce, such duties, however, to be remitted in whole or in part as regards imports from the Colonies. If at any future time, she were to adopt the protective system generally the preference could be applied and extended as is now done by Canada and the other Colonies.

Public sentiment in Canada is undoubtedly overwhelmingly in favor of the preferential system. As a theory it was advocated by the leaders of both parties previous to 1896, and has been supported by both parties since its enactment in 1898. In the press and on the platform it receives general commendation and support.

It is true that Canadians and Colonials generally, as well as Preferentialists in Great Britain, desire a mutual preference and do not consider the arrangement complete until the mother country puts herself in the fiscal position to make a return preference to such a degree as can be done without detriment to her own vast interests. But they are patient and considerate of what such a step involves and are content to have it worked out gradually in both time and extent.

Preference is desired from at least two considerations : business and imperial, and the greater of these is the latter. At no time in the history of the Empire has the trend been more strongly and unmistakably in the direction of unity and closer co-operation. The very growth and extension of the national Canadian feeling, which, since confederation, has been so noticeable has,

instead of making for independence, only strengthened the feeling of loyalty to the Empire and stimulated the desire to co-operate in its development and share in its advantages. The revelation of our immense and varied resources, and the pride and confidence in the future which these inspire, marches side by side with our better understanding of the resources of our sister colonies, and both flash their irradiating light upon an imperial future which shall possess the greatness and dignity and commanding mission of a world wide confederation united under a common flag and with a common ideal. This Empire embraces within its bounds every variety of climate, soil and production, every element of enterprise and adventure, and every possible form of growth and development. In it are continents and islands, arctics and tropics, rivers, lakes, sea, oceans, prairies and mountains, variety of races and creeds, literatures and philosophy, newness unexplored and antiquities of the most ancient, all combined in a vast imperial inheritance, glorious in memories and vivid in unrevealed prospects. To hold common citizenship and possess common rights in so vast and wonderful a confederacy inspires the heart and fires the imagination, and the age of steam and electricity reduces all this vastness to a practical sphere of obedient direction and easy regulation.

Every year in the last quarter of a century has contributed its quota of wider knowledge and better understanding and has increased co-operation among the members of the Empire.

Colonial burdens are shared by the mother country. Imperial burdens are shared by the Colonies and great inter-Imperial enterprises are shared by both. As the

powers and independence of the Colonies have grown, the trust and confidence of the mother country have increased. The test of empire has been applied even to the decisive arbitrament of war, and the great fact established that the children of Greater Britain are as ready to fight in defence of the Empire as the children of the North Sea Isles have for centuries been to found, sustain and defend the Colonies.

From this broad and fertile soil of sentiment and union of effort has sprung the conviction that co-operation in trade has its part to play as well. All the elements of interchange exist within the Empire, every variety of product is found there. The adventurous sea laves every shore inviting to commercial enterprise and intercourse. Two values and two profits in production and exchange are possible within the Empire itself for the stuff of every commercial transaction, and the profits of carriage as well. Cottons in Africa and Asia, wools in Australia and the Cape, wheat in Canada and India, butter and cheese and meats, tropical fruits and sugars, tea and coffee, precious stones and metals, all can be produced in the Empire, finished within the Empire and exchanged within the Empire, and the added wealth of all expended therein; all to the advantage, the progress and the strength of the Empire. The adventurous progeny of the old lands can find preferential ground suited to them, and though changing from one clime to another still be retained for the Empire. The billions of money and the millions of producers that now go out of the Empire to stimulate production and build up strength in foreign and hostile countries, could in great part be kept within the Empire and with inestimable gain.

These are samples of the considerations which form the hard business basis of imperial preference, and, from these, details easily fashion themselves in endless variety, and both go to prove that the business reasons for preference are not merely selfish and ignoble.

As to the results in a commercial sense of the preference, initiatory and one-sided and brief as it has been in its course, it may be cited statistically that from 1900 when it became practically operative to 1904 the imports into Canada from the United Kingdom have increased from \$44,000,000 to \$61,700,000 and the exports from Canada to the United Kingdom from \$96,000,000 in 1900 to \$117,500,000 in 1904. How much of this increase has been due absolutely to the preference and how much to the general increase of trade in that period is a matter of opinion, but that the preference has tended to increase trade is undoubtedly. Figures of trade exchange are, however, not by any means all or the best indicia of progress. The mutual interest excited, the greater knowledge diffused, the feeling of common citizenship aroused and the union of sentiment and ideal induced, are much more far reaching and powerful, and their influence is enduring and productive.

2. RECIPROCITY

I now come to the second branch of my subject, reciprocity :

This word has had little or no meaning in Canada except in relation to the United States. With no other country, except in a very limited degree with France, have we ever had a reciprocal treaty, and with few others have any negotiations been had with a view of obtaining such a treaty. But with regard to the United States, reciprocity and the controversies connected with

it have been familiar to Canadians for the last half century.

In early times reciprocity with the United States was looked upon as almost essential to anything like commercial prosperity. These were the days when ocean voyages were long, dangerous, and costly ; when British markets were distant and returns tardy ; when we were mainly sellers of staple natural products, chiefly of lumber and fish and live animals ; when we manufactured little and bought our finished goods mostly from abroad ; when our transport system was in its infancy and confined mainly to the natural waterways, and when our Provinces were scattered and disjoined.

To our people the United States markets, owing to propinquity and large consuming population and diversified manufactures, seemed both for buying and selling, a necessity. The repeated endeavors of Great Britain at last succeeded in negotiating the Elgin Treaty, which went into effect in 1854, and so remained until, after denunciation by the United States, it was terminated in 1865.

Thereafter a series of attempts at renewal of the old Treaty or negotiations for a new one was made by successive Canadian Governments, and in some instances arrangements were practically agreed upon, but in the end were not ratified by the United States.

These repeated refusals and the sharply effective answers made by the McKinley and Dingley Tariffs, which practically prohibited the export of their agricultural and animal products to the United States, cooled the ardour of Canadians towards reciprocity and threw them with increased diligence into the cultivation of their already rapidly expanding trade with Great Britain.

But other factors have entered into the question. The Great West of the United States has, since 1850, been developed with its immense production of cereals and cattle. Vast transport systems have brought these into quick and cheap connection with Eastern United States consumers, and the consequent competition has rendered these markets less valuable to Canadian farmers.

The impetus given to Canadian industrial life by the protective system adopted in 1878 has led to a volume and diversification of manufactures, which supplies in part and is destined to supply more fully the home markets, and this inclines us to bar the way for easy competition to the increasing and over-abundant manufacturing capacity of the United States.

The Canadian transport system has entered upon a course of rapid and efficient development, and this development has taken on an east and west trend, looking to the stimulation of production throughout the whole Dominion and the carriage of Canadian products east and west for distribution, and, as far as exports are concerned, to the upbuilding of national ports.

The area and variety of profitable production has thus been immeasurably widened, and this, with the great revelation of natural resources and capabilities, undreamed of in the olden time, has materially changed the problem.

Instead of segregated sections, each in close natural affinity with the great cities of the United States contiguous thereto, there is now a vast and broad belt of united country, stretching across the Continent, in most parts well watered, fertile and easily cultivable, in other parts rich in lumber and minerals, already well served by parallel trunk lines of railway which are yearly throwing out their lateral feeders into every eligible

district, and with admirable water communications for many months in the year.

The increase in production has already been enormous and this is but the faint promise of future yield. Cities are springing up, marts of trade and commerce, full of enterprise and ambition. New thoughts are stirring, new ideals have been created and new hopes are cherished. To-day changed conditions and a new outlook confront and confound the advocates of old time reciprocity.

From 1867 till 1904 no election has taken place for the Federal Parliament in which reciprocity in some form was not a dominant factor. In 1891 it was practically the sole issue in the form of unrestricted exchange of commodities between Canada and the United States, and involving discrimination against the mother country. During the Federal elections just closed it was either not discussed, or if it were, it was by the way of condemnation rather than of approval. The main issue of the Grand Trunk Pacific was pressed by the Government on the ground that it was needed as a national road, designed to prevent the commerce of the Canadian West seeking an outlet through United States routes and ports. As a live issue it does not exist. I question if at present it can be galvanized into any decent semblance of activity. The most that is said in its favor is that if any move is to be made in that direction, it must come from the government of the United States, that the rôle of petitioner has been abandoned by Canada, and that even were an advance so made, the response thereto should be a very guarded one, and it is doubtful if any favorable response could be given to any proposition going beyond the field of natural products. Even as regards this, the question arises as to whether these

should not be preserved for finishing in Canada, to the end that their greatest values might be exported, and that skill and labor either developed within the country or attracted from abroad, should be employed in imparting the added values, in distributing and carrying the finished products, and in securing the vast incidental advantages for the enrichment and enlargement of our own country.

There is a growing indisposition to set the currents of trade by hard and fast treaties, lasting for a definite period and then subject to denunciation by a power which has different national aims and ambitions. The hold thus given to the more powerful participator, the confusion possible from an abrupt closing of the gates, and the consequent necessity for opening new avenues of trade at great trouble and expense create a situation fraught with menace and peril. There is a growing appreciation, too, that any setting of the currents of trade by virtue of tariff preferences between the members of the same Empire would be less liable to sudden change through caprice or hostile interest. The differences are patent between trusting your fortunes to the family or to outsiders, however respected and estimable these may be.

For the limited reciprocity that is possible it would seem that the better mechanism to be employed would be for each country to facilitate, by reductions or abolition of duties, the entry of what it desires from its neighbor. For instance, if the United States needs our wheat for its mills it can facilitate the imports by reducing or abolishing its duty thereon, just as Canada secures corn for food purposes by making United States corn free in her market.

Canada has also a deepening sense of the unfairness of present tariff legislation under which Canadian products are debarred by almost prohibitive rates from entering the United States, whilst over her far lower tariff United States products are poured into Canada.

The United States, as a market, is becoming every year less valuable to Canada. Of all agricultural and animal products which she could sell to the United States, in the face of severe home competition, she can sell far more to Great Britain, which has no home surplus to throw into the competition, but where there is instead a chronic deficiency. Her fish products the United States must, in a large measure, have for its enormous population, whilst the great preserves of her lumber stand to be needed to an extent which will, by and by, over-ride duties, owing to growing consumption combined with diminishing resources in the United States.

Leaving the field of natural products, the feeling is growing strongly in Canada, that her prosperity is wrapped up in peopling her comparatively empty, but vastly productive stretches, in the diversification and development of her industrial life, and that her true policy is to make up her own and imported raw resources by the employment of skill, and labor, and capital within her own borders, and thus increase her population, enlarge her home market, and enrich her people with the wealth thus produced.

The recent trek of United States farmers to her fertile fields, and the translation of United States industries to her towns and cities, with all the employment and production that results, have set the most ardent free traders thinking.

The national sentiment has become robust, and if we

are to persist, we feel that we must enter whole heartedly into the development and population of our immense areas. A reciprocity which would tend to make us dependent on the United States for our manufactured goods, to draw off our great natural products, to be finished there; to starve our great lines of railway and ocean ports, has no powerful claims upon a young, vigorous and hopeful race of nation builders.

In fine our feelings and our affiliations are for the Empire and thither are we "drawn, ourselves a vast and vaster coming part thereof.

A few years more and reciprocity as our fathers understood it, will have reached the vanishing point in Canada.